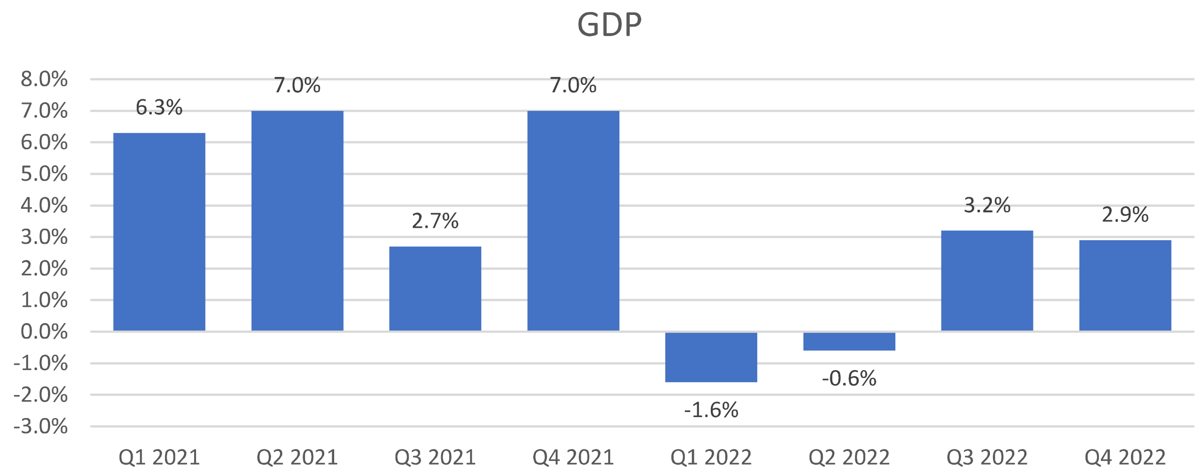
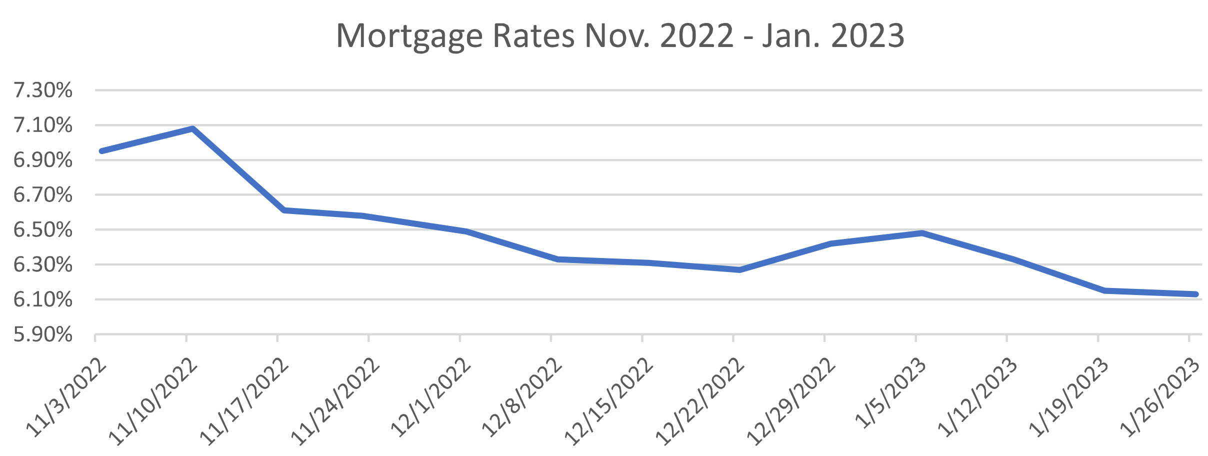
January Update

The first two quarters of 2022 displayed the textbook definition of a recession indicator with two straight quarters of negative GDP. The third quarter broke that slump with a GDP of 3.2%. The fourth quarter followed suit, as the fourth quarter GDP reported at 2.9% in January. While this does not mean that the U.S. economy is out of the woods, it is one of few economic indicators that are reassuring in that if we do enter a recession, it could be the soft landing the Fed is striving so hard to engineer.

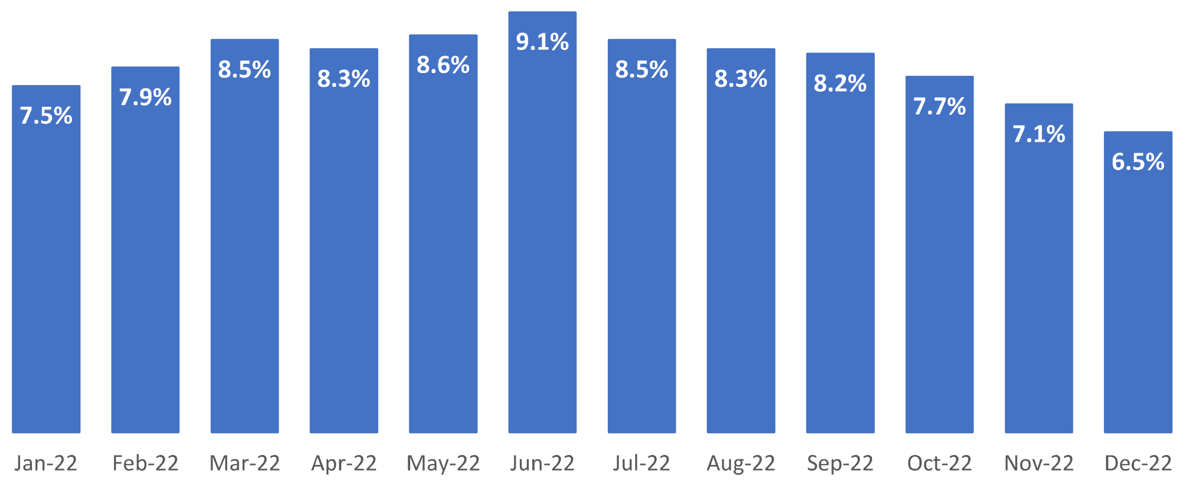


Mortgage rates are another indicator that is trending in the right direction. While rates are still at high levels (+6%), they are trending downwards. Mortgage rates hit their high of 7.08% twice in 2022, once on October 27th and again on November 10th. Since then it has trended downward to the last report on January 26th, 2023 at 6.13%. With mortgage rates pushed up it steers consumers away from buying houses, which can then ripple down through the economy as people may not need to furnish the house, take care of the lawn themselves, and even invest in their home through home improvements.



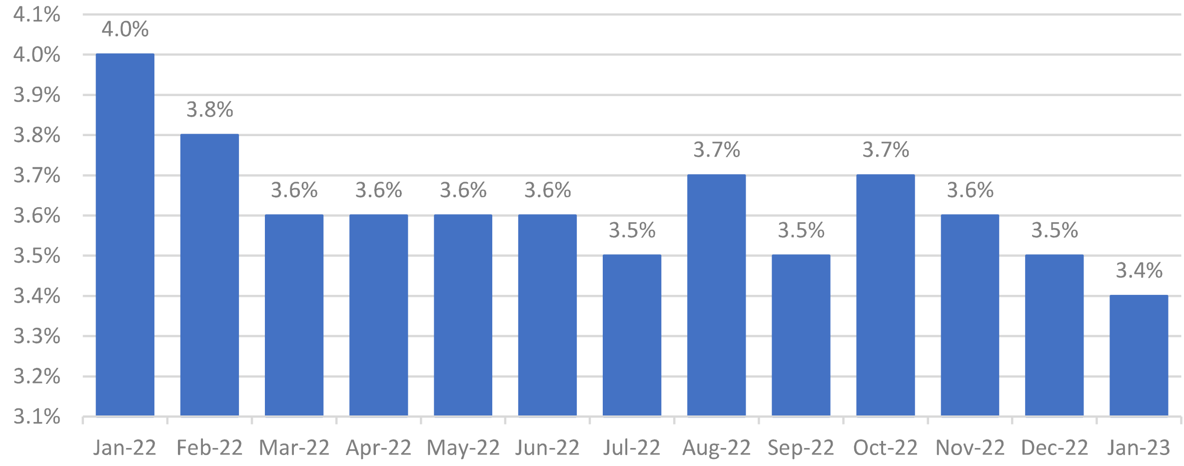
Inflation remains at the top of the headlines. That doesn't seem to be changing anytime soon. The Fed aggressively raised interest rates to tame inflation and it appears to be working. After inflation peeked in June 2022, at 9.1%, it has trended down every month since. The latest data reported for December's inflation came in at 6.5%, the lowest of 2022. With this the Fed has begun to temper their interest rate hikes.

CPI 2022 (YoY % Change)



Employment data has been the biggest push back against talk of recessions. Jobless claims have been consistently lower than expected each week. Nonfarm payrolls are also showing more jobs created than economists have been expecting. The unemployment rate overall is at a 53 year low, with January showing 3.4%. Again, while headlines are all talking about a looming recession, if the U.S. job market can stay as strong as it has been, it could help steer us from a deep, long recession.

Unemployment Rate



In a time where economic data seems to be reaching more people than ever, it is unfortunate that the data itself is also sending very mixed signals. It is possible that the data is conveying the idea of a rolling recessionary period, one in which different industries may experience an economic downturn, instead of an entire economy experiencing a downturn together. With that, we expect to see continued volatility in the stock market as there will be reactions each time the latest data is released. One of the impactful events to watch is the Fed easing up on their interest rate hikes as they evaluate the impact previous interest rate increases have caused. Stay tuned for the rest of the story…

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